



THE WHITE HOUSE

WASHINGTON

June 28, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER *RBP*

SUBJECT: Agenda and Papers for the July 2 Meeting

The agenda and papers for the July 2 meeting of the Economic Policy Council are attached. The meeting is scheduled for 9:00 a.m. in the Roosevelt Room.

The first agenda item is a review of Japanese trade issues. The discussion will focus on the approach the Administration should take regarding the possibility the Japanese Government may impose an export surcharge. A paper reviewing this issue as well as the recent tariff announcement by the Japanese Government prepared by the Office of the U.S. Trade Representative in coordination with the Office of Policy Development is attached.

The second agenda item concerns the Common Fund. The Council's discussion will focus on the issue of whether the United States should ratify the Common Fund Agreement. A paper prepared by the Department of the Treasury on this issue is also attached.

Attachments

Japanese Trade Issues

Two issues regarding U.S.-Japan trade relations that require Economic Policy Council consideration include:

1. What approach should the Administration take regarding the possibility that the Japanese Government may impose an export surcharge?
2. Should the Administration provide the Japanese Government any further formal communication of what it should consider including in the Action Plan for Imports expected to be announced in late July or early August?

This paper also reviews the recent tariff announcement by the Japanese Government.

Japanese Export Surcharge

Some Japanese Government officials and private sector leaders reportedly continue to support the idea that Japan should deal with its trade problems by imposing an export surcharge. This approach appears to be motivated by a number of concerns. First, some Japanese feel that an export surcharge is an equitable means of having all exporters share the burden of addressing this problem. Second, some Japanese see this approach as a means of enabling Japan to capture the rents of restraining exports. Finally, these individuals appear to place greater weight on Congressional criticisms of the size of the U.S.-Japan trade deficit than on the Administration's emphasis on equal market access.

If the Japanese Government imposed an export surcharge, it would have serious economic and political implications. It would not provide U.S. firms equal market access to Japan -- our major objective in U.S.-Japan trade. A restriction of Japanese exports to the U.S. -- whether imposed by Japan or the U.S. -- would result in the classic costs of protectionism. Finally, it would provide the Japanese a pretext for claiming that our trade problems are resolved, which would reduce the pressure for opening Japanese markets to U.S. exports.

In a press conference in Tokyo earlier this month, Ambassador Smith strongly stated that the U.S. would not welcome a Japanese export surcharge. At his confirmation hearing on June 25, USTR-designate Yeutter condemned the export surcharge as a "tragic" error. Notwithstanding these statements, it appears that certain influential Japanese leaders continue to support the idea.

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Issue: Should the Administration again convey to the Japanese Government that it would not welcome an export surcharge imposed by Japan?

It appears that Administration statements to date may have fallen on deaf ears. Without a strong reiteration by the Administration of the need to open Japanese markets, the Japanese Government may impose an export surcharge in order to satisfy what it perceives as the growing demand by the U.S. Congress for action to reduce the size of the U.S.-Japan trade deficit. In the absence of such a message, the Japanese are likely to follow their predilection for dealing with trade frictions by restricting exports, rather than by opening markets.

If the Administration decides again to convey its opposition to a Japanese export surcharge, it needs to communicate it as soon as possible to allow the Japanese Government sufficient lead time to factor that into their plans. If we decide to convey opposition, we need to determine how that should be done. The Administration has several alternatives:

- o The President or a senior Cabinet official could directly convey the Administration's opposition through a letter or in a formal meeting. (For example, Secretary Shultz is scheduled to meet with Foreign Minister Abe at the ASEAN Ministerial meeting in mid-July.)
- o Senior Administration officials could make public statements conveying our opposition.

Japanese Action Plan for Imports

On April 9, the Japanese Government announced that it would develop the outline of an "Action Plan for Imports" to be implemented over three years. We now understand that the announcement of this plan, originally scheduled for mid-July, will be delayed until late July or early August.

On June 24, the U.S. Government made two communications to the Japanese Government regarding the Action Plan. First, Secretary Shultz wrote Foreign Minister Abe a letter expressing our high expectations that the Action Plan would address both those issues outstanding and a number of structural issues.

Second, the U.S. Embassy in Tokyo orally presented to the Japanese Foreign Ministry a list of U.S. Government suggestions regarding the content of the July Action Plan. This list addressed the outstanding issues to which Secretary Shultz's letter referred, i.e., those already identified in the MOSS talks

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and other bilateral discussions. It also included a number of suggestions for medium- and long-term actions Japan could take to remove structural barriers to foreign participation in the Japanese economy.

One issue the Economic Policy Council should address is whether the Administration should make any further formal communication to the Japanese Government regarding what should be included in the Action Plan.

Japanese Tariff Announcement

On June 25, the Japanese Government announced that it intends to eliminate tariffs on 37 items and reduce tariffs by about 20 percent on approximately 1,800 items. We have not yet received the full list of items on which tariffs will be reduced. However, it is unfortunate that some of our priority items such as wood products, chocolate confectionery, and grapefruits will not be included, and that tariff cuts on other items such as paper products and wine will be much smaller than the Administration had sought. We have already received numerous telephone calls from excluded U.S. industries expressing outrage over the lack of tariff action on their products.

The Japanese Government told us informally that this tariff announcement was made in June rather than as part of the July action plan because it needed to address some tariff requests by Southeast Asian countries before the ASEAN Ministerial conference in mid-July.

Japanese agricultural imports from the U.S. of items affected by the tariff announcement totaled only \$34 million in 1984 or 0.5 percent of total U.S. agricultural exports to Japan of \$6.8 billion. Only five agricultural items in the tariff package were on the U.S. tariff request list delivered to Japanese officials at the June 19 Trade Committee meeting in Tokyo.

There are, however, some items in the announcement that are of interest to the U.S., including aluminum aircraft skins and telecommunications and radio equipment. USTR is seeking clarification of what products are included under telecommunications and radio equipment.

The Administration's public response to the tariff announcement has been to welcome it, but to express disappointment regarding both the scope and depth of the tariff cuts.